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CURRENT INTELLIGENCE WEEKLY SUMMARY

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CURRENT INTELLIGENCE WEEKLY SUMMARY

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T H E W E E K I N B R I E F

PART I

OF IMMEDIATE INTEREST

MIDDLE EAST DEVELOPMENTS Page 11

Saudi Crown Prince Faysal's talks with Nasir seem to have been preparatory to further discussion of closer Saudi-UAR relations at a forthcoming Arab League meeting. A contest for influence appears to be building up in Iraq between Communists, who have resumed activity since the coup, and radical Arab socialists. Jordan's security situation remains tense, and economic and political conditions continue to deteriorate. The Israeli Army remains alert for possible trouble in Jordan

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[redacted] Sporadic bombings and other terrorist actions continue in Lebanon; President Chamoun now feels he does not want to leave the country immediately even after the expiration of his term on 23 September. At the UN, the Arab resolution designed to facilitate early troop withdrawal received extensive support. Moscow has continued its posture of "reasonableness" in the General Assembly in order to attract maximum neutralist and small-nation support for its stand that the purpose of the special session is to secure immediate troop withdrawal.

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TAIWAN STRAIT SITUATION Page 3

The Chinese Communist military build-up continues in the Taiwan Strait area, increasing Peiping's capability of bringing heavy pressure on the offshore islands. The deployment of MIG's to previously unoccupied Lungtien airfield indicates that the Communists are still expanding their air strength in Fukien Province, opposite Taiwan. A large number of air sorties have been made, and several minor clashes have occurred. Peiping's "liberate Taiwan" propaganda continues at a low level. The Communist occupation of the coastal airfields has not caused panic on Taiwan and no public disturbances or unusual subversive activity by either Communist or Taiwanese nationalist elements has occurred.

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AGREEMENT REACHED IN GENEVA TECHNICAL TALKS Page 5

The experts at the Geneva Conference on detection of nuclear tests, by reaching agreement on the number of control posts necessary and on the use of mobile inspection teams, cleared the way for preparing agreed

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PART I (continued)

recommendations for submission to their governments. The USSR will probably accept the recommendations quickly in order to launch a broad and intensive campaign for a prompt end to all tests. [redacted]

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PART II

NOTES AND COMMENTS

SINO-SOVIET ECONOMIC RELATIONS Page 1

The Sino-Soviet technical assistance agreement signed on 8 August provides further evidence that Peiping is making a point of keeping outright Soviet aid in Chinese industrialization to a minimum, and is paying with current exports for imports of equipment from the bloc for its industrialization program. Peiping is probably not seeking economic loans from the USSR at the present time but may be seeking relief from debts incurred for Soviet military goods. Repayments due this year amount to \$300,000,000 and would impose a great strain on China's resources. [redacted]

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CHINESE COMMUNISTS REORGANIZING COUNTRYSIDE Page 2

Mao Tse-tung's current inspection tour of Chinese provinces brings to the fore Peiping's plans for radically reorganizing the country's rural economic and social life. The program calls for gradual amalgamation of industry, agriculture, commerce, culture and education, and the militia into large communes which would form the basic units of Chinese society. Collective farms are already being merged and given responsibility for nonagricultural activities. [redacted]

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COMMUNIST CHINA EXPANDING CIVIL AIR SERVICES Page 3

In view of greatly increased transport requirements resulting from Communist China's ambitious economic development program, Peiping has begun to expand its civil air services. Scores of new airlines are being opened, largely in areas not well served by surface transport. Modern, large transports and at least 30 light planes are to be ordered from abroad before the year is out. Domestic production of transport aircraft, now limited to the ten-passenger AN-2, is to be expanded to include medium transports. [redacted]

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PART II (continued)

SINO-JAPANESE TRADE COMPETITION IN SOUTHEAST ASIA Page 4

Industrial and commercial interests in Japan are increasingly concerned over Communist inroads on their Southeast Asian markets, but thus far have been unable or unwilling to devise countermeasures. Tokyo, however, has been attempting to promote a multinational economic development fund which would orient Southeast Asia's trade toward the free world, primarily Japan, and Foreign Minister Fujiyama probably will renew these attempts when he visits Washington on 11 and 12 September.

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NEW LAOTIAN GOVERNMENT Page 5

The new Laotian Government, although excluding the Communist-dominated Neo Lao Hak Zat (NLHZ), appears too weak to effect the reforms essential to restore public confidence and counter NLHZ growth. Old-guard conservative politicians succeeded in limiting reformist elements to four seats in the 11-man cabinet. Although these young leaders are considered honest and probably capable, their influence is likely to be limited by their lack of support in the National Assembly.

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INDONESIA Page 6

The Djakarta cabinet is alarmed over growing inflationary pressures and a rapidly increasing budgetary deficit and is therefore making plans for a coordinated economic stabilization program. President Sukarno, in his Independence Day speech, added few ingredients to the mixture of highly emotional nationalism and anti-Westernism he habitually presents to mass audiences in Indonesia. While bitterly attacking the West, Sukarno strongly reaffirmed Indonesia's policy of nonalignment. American military aid, the first increments of which are now arriving by air, is apparently being well received by Indonesian officials.

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OPPOSITION PRESSURES ON PAKISTAN'S FOREIGN POLICY Page 7

Exploitation by opposition groups in Pakistan of growing popular dissatisfaction with Karachi's pro-Western foreign policy is likely to make it difficult for government leaders to continue to defend Western actions in the Middle East. In addition, Pakistan's inability to dispose of its surplus cotton in the free world is causing it substantially to increase its economic dealings with the Sino-Soviet bloc.

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THE WEEK IN BRIEF

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PART II (continued)

AMERICAN BASES IN MOROCCO Page 8

Premier Balafrej has expressed doubt that an agreement on US bases is possible in the "present climate of opinion in Morocco and other Arab states." He suggested that the United States recognize the "principle of evacuation" and make clear that its forces have no intention of maintaining permanent bases in Morocco. This is the first time Balafrej has voiced such a request, although other Moroccan officials did so informally some weeks ago.

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CYPRUS Page 9

London's announcement on 15 August of its intention to put into effect immediately a modified version of its Cyprus plan, originally made public in Parliament last June, probably will not result in widespread attacks on the British by the Greek Cypriot underground organization EOKA at this time. The modifications--rejected by both the Greek Government and Archbishop Makarios--were designed to reduce Greek objections to the original British plan while retaining enough of its features to prevent Turkish rejection.

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BRITISH-ICELANDIC FISHERIES DISPUTE UNRESOLVED Page 9

The approach of 1 September, when Iceland intends to begin enforcing a 12-mile fishing limit, brings an increasing possibility of incidents between Iceland and Britain. Prospects for a compromise agreement by that time are uncertain, and some Icelanders have intimated that Iceland may call for assistance from American forces stationed at Keflavik.

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FRENCH CONSTITUTIONAL REFERENDUM CAMPAIGN. Page 10

Information Minister Soustelle, whose position in the cabinet does not adequately reflect the power role he plays in the De Gaulle government, has warned that failure to adopt Premier de Gaulle's new constitution in the 28 September referendum will lead to civil war. This probably constitutes his bid for the premiership as leader of a political grouping opposed to the "Communists and their friends." Approval of the new constitution is still considered certain, but opposing forces are beginning to crystallize.

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PRESSURE FOR REVISION OF VENEZUELAN OIL POLICY Page 11

Political pressure is mounting in Venezuela, the world's leading exporter and second-ranking producer

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PART II (continued)

of oil, for a revision of the prevailing 50-50 profit split between the government and the foreign oil companies. The influence of Middle Eastern developments on future Venezuelan policy is suggested by the provisional government's acceptance of an invitation to attend the Arab League Petroleum Conference in Cairo next November and by public interest in the recent Middle Eastern contracts of Italian, Japanese, and US oil companies which have signaled the end of the 50-50 formula there.

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FURTHER COMMUNIST MEASURES TO ISOLATE WEST BERLIN Page 12

East German authorities are taking several actions designed to tighten further their controls on the borders of West Berlin, mainly to prevent Germans from traveling between West Berlin and East Germany. Although these moves are not primarily aimed at Allied and West German access to Berlin, they indirectly contribute to the further erosion of the Allied position there. The Communists have, however, avoided measures that would openly flout the quadripartite agreements on Berlin.

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BLOC ATTACKS YUGOSLAV NEUTRALIST FOREIGN POLICY Page 13

Yugoslav - Soviet bloc arguments have resumed as tension over the Middle East has lessened somewhat. The dispute has shifted, however, from attacks solely on Yugoslav "revisionist" ideology to criticism of Yugoslav foreign policy. This criticism is directed mainly at the Yugoslav policy of "active" peaceful coexistence, which the bloc describes as linked with "imperialism." This emphasis is probably intended to discredit Yugoslavia in the eyes of neutral countries in Asia and Africa.

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SOVIET PLANS FOR EASTERN AREAS DEVELOPMENT PROBABLY RETARDED

The USSR's plans for large-scale industrialization of its eastern areas now appear to have been extended over a longer period of time. These plans figured prominently in the Sixth Five-Year Plan (1956-60) as an industrial counterpart to the agricultural extension into the new lands and were announced last fall as a major objective to be included in the as yet unannounced Seven-Year Plan (1959-65). Construction has been lagging significantly, however, and it now appears probable that the Seven-Year Plan will not try to make up the lost time.

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PART III

PATTERNS AND PERSPECTIVES

EAST GERMAN GOVERNMENT BROADENS ATTACKS ON CHURCHES Page 1

Religious groups in East Germany are facing more severe restrictions on their activities. In addition to trying to isolate the Evangelical Church in East Germany from that in the Federal Republic, the Communists are trying to alienate the church membership from its leaders. Church leaders are planning to back down on some of their demands; it appears that in East Germany the church will be unable to arrest a deterioration in its position as a center of resistance to Communism.

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THE ECONOMY OF POLAND'S WESTERN TERRITORIES Page 4

Recent praise in the Polish press for the economic contribution of the "western territories"--the formerly German Oder-Neisse area--to Polish economic development is designed to serve notice that those areas have become irrevocably Polish as well as to counter West German accusations that the Poles are incapable of administering the area. Although the region is still well below its prewar economic levels and the continuing political controversy over its status still discourages permanent settlers, the integration of this region has played a significant part in the rapid postwar recovery of the Polish economy as a whole. 25X1

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MALAYA'S FIRST YEAR OF INDEPENDENCE Page 11

Declining economic activity has marked the Federation of Malaya's first year of independence and may adversely affect the conservative Alliance government in next year's national elections. The federation's foreign

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policy has been stanchly anti-Communist; at present certain factors foreshadow a trend toward neutralism. The war against Communist terrorists has been aggressively carried out and less than 1,300 are now left in the jungle.

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THE WEEK IN BRIEF

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****21 August 1958****PART I****OF IMMEDIATE INTEREST****MIDDLE EAST DEVELOPMENTS****UAR - Saudi Arabia**

Saudi Crown Prince Faysal's talks with UAR President Nasir produced a noncommittal communique which emphasized the standard themes of friendship and unity. The talks may have been preliminary to an Arab League political committee meeting reported scheduled for 6 September. This meeting seems likely to discuss plans for reviving the league and possibly for transforming it into a group of allies adhering to Nasir's neutralist policy.

Iraq

The Iraqi regime is still having some growing pains and possibly more serious symptoms of trouble. Communist elements, now free to agitate after years of rigorous suppression, are reported contesting influence with the radical Arab socialists of the Baath party, whose spokesman appears to be Deputy Prime Minister Arif. The Communists are said to be urging Prime Minister Qasim to squelch Arif, although Qasim himself is not known to have Communist sympathies, on the ground that Arif is the leader of forces ultimately dangerous to both of them. Arif, who has been making vehemently nationalist speeches and is believed to be an advocate of union with the UAR, has been reported backed by Cairo.

There are some outstanding similarities between this situation and the contest between Communists and Baathists in Syria last fall which was a

major factor behind the formation of the UAR. Should the struggle in Iraq become really dangerous, the government might be impelled to seek close association with Nasir as a means of maintaining unity and overall control.

Jordan

The British have complicated the Jordanian Government's problem of maintaining some semblance of popularity by organizing a new airline between Cyprus and Jordan with a stop-over in Israel. The airline supposedly is a private one which is supplying British troops in Jordan on a charter basis. The impact of the establishment of such an airline, however, would be to convince Arabs generally that Jordan had entered into an arrangement with Israel. Such a conviction provided the background for the assassination of King Husayn's uncle, King Abdullah, in 1951. Amman has refused to countenance operation of this line.

The government is trying 25X1 to decide whether to carry out death sentences imposed on arms smugglers and terrorists. 25X1

death 25X1 sentences would meet with popular disapproval, but conservative elements insist that an example be made in this case.

Israel

The Israeli Army remains alert for possible trouble in Jordan. 25X1

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UAR claims that Israeli probing patrols into the Gaza strip and the Sinai peninsula have been resumed.

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Lebanon

Lebanese President Chamoun now thinks he will remain in the country even after the end of his term on 23 September, although he says he does intend eventually to take a trip abroad. Terrorist activity continues as the rebels insist they will not lay down their arms until Chamoun is out of office. However, some of the activity now appears to be simple banditry, a result of the general breakdown of security during the past three and a half months.

There is still maneuvering to oust Prime Minister Sami Sulh in favor of a caretaker government, but it appears to be half-hearted. General Shihab's failure to take a strong line in any direction has probably cost him some popularity, but he retains a maximum of maneuverability.

UN Maneuvers

The resolution drafted by ten Arab delegations on 20 August at the special session of the UN General Assembly is a compromise between Norwegian, Soviet, and Indian resolutions, with its principal operative paragraph being a request to the secretary general to take steps making possible the "early" withdrawal of US and British troops and to report back to the assembly by 30 September. Extensive support for the draft promptly developed, including

approval from the British

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Hammarskjold--who expected the assembly only to establish general principles--presumably feels the resolution adequate to enable him to proceed with practical steps. The British idea for Jordan is apparently to have a UN commissioner in Amman as a "UN presence"; Hammarskjold previously has stated that "much more" would be necessary for effective control. He has already strengthened the UN observer group in Lebanon.

The resolution also authorizes the secretary general to proceed with his studies of an Arab development institution, which he has been quietly promoting for some time.

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5X1Soviet Tactics

Moscow has continued its posture of "reasonableness" at the General Assembly in order to attract maximum neutralist and small-nation support for its stand that the purpose of the special session is to secure the immediate withdrawal of American and British troops from Lebanon and Jordan. Soviet Foreign Minister Gromyko, who has met openly with Secretary Dulles and British Foreign Secretary Lloyd, has followed the line of his 13 August speech that Moscow is willing to consult officially or unofficially

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with any delegation in order to find a "mutually acceptable formula" for early troop withdrawal.

The Soviet foreign minister told Secretary Dulles on 18 August that the USSR opposed the Norwegian resolution because it "imposed many conditions" about the troop withdrawals, but he left the impression Moscow is interested in arriving at agreement on this issue. Gromyko emphasized Soviet support for a UN role in Lebanon and Jordan, but reiterated that this role would be to get American and British troops out of Lebanon and Jordan and not to interfere in "internal" questions of the area or in the domestic situation in Jordan. Gromyko indicated that UN observers along the Jordanian border and a pledge of noninterference by its neighbors would solve the Jordanian problem. Soviet Deputy Foreign Minister Zarubin told Ambassador Thompson

on 15 August that he was "impressed" and "encouraged" by Secretary Dulles' 12 August talks with Gromyko and that the General Assembly would arrive at a "constructive" solution if "we continued to approach the Middle Eastern problem in the same spirit." Gromyko has maintained close liaison with the UAR delegation.

Meanwhile, to offset the impact of recent American proposals for Middle East development, the bloc press is making much of Soviet plans to deliver at Alexandria in the near future 25 shiploads of industrial equipment. Delivery of this equipment, contracted for under the \$175,000,000 Soviet-Egyptian agreement concluded last January, is described as "one of the greatest operations in the history of the port" of Alexandria, and wharves at the harbor are being cleared to receive the cargoes.

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TAIWAN STRAIT SITUATION

The continued build-up of Chinese Communist military strength in the Taiwan Strait area increases Peiping's capability of bringing heavy pressure on the offshore islands. The Communists have augmented the number of jet fighters near the coast, and there are reports of troop movements into the vicinity.

Most significant of the air operations has been the deployment of MIG's into Lungtien airfield on 13 August. There now are an estimated 150 MIG's in Fukien Province--opposite Taiwan--and on coastal airstrips. The deployment of Communist air strength to the coast may be permanent, as new nonmobile electronic

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installations have been sighted at some of the fields.

Air sorties by both Nationalists and Communists have been numerous. No large-scale air clashes have taken place, but several minor engagements have occurred, and larger air battles may develop in the future. Indicative of this was an engagement on 14 August when seven F-86F's attacked four MIG's over the Matsus; at least two and probably three of the MIG's were destroyed, and one of the F-86F's was lost because of mechanical difficulty. Although no other planes have been shot down, MIG's flying over the Matsus and Quemoy have drawn antiaircraft fire.

So far the Communists have not made strong efforts to gain control of the air over the offshore islands or over the strait; most of their attacks have been made in reaction to Nationalist over-flights.

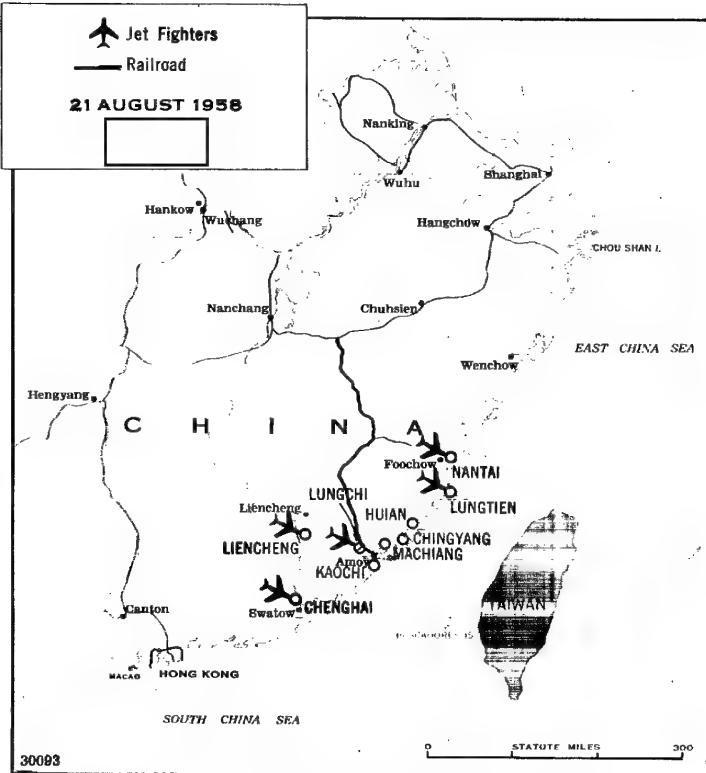
There has been no firm evidence of changes in strength of Communist ground forces in the strait area

An attack against Quemoy might necessitate some build-up of troops and supplies in the area; an attack against the Matsus,

however, could be carried out by troops already in the vicinity.

Chinese Communist propaganda concerning Taiwan continues at a low level, with no note of special urgency in statements on Taiwan's "liberation." Premier Chou En-lai on 15 August, for example, stated only that the United States continues to "occupy" Taiwan, and a People's Daily editorial on the following day commented routinely that "we can never tolerate the permanent US occupation of Taiwan."

Nevertheless, efforts to maintain a considerable degree of tension among the populace, particularly in coastal areas

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fronting Taiwan, are continuing. Chinese Communist statements intimate the constant danger of Chinese Nationalist "invasion" and other provocations, and there are reports that civilians are being ordered to evacuate cities and villages in Fukien, where the Communists have begun air raid drills.

The Nationalists still say they will take offensive action against the mainland only if the Matsus or Quemoy are attacked. Taiwan continues unofficially, however, to seek US guarantees of the safety of the offshore islands.

The new threat posed by the Communist occupation of the coastal airfields has not caused panic in Taiwan, and no public disturbances have occurred.

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gible. The native Taiwanese have been reported unresponsive to Chinese Communist propaganda pledging the liberation of Taiwan. Nevertheless, the Nationalist government has canceled police leaves, has set in motion plans for an air raid dispersal program, and has moved to establish an emergency liaison center in Taipei for the Taiwan provincial government.

In Taipei, the principal fear of the press and populace appears to be that an invasion of the offshore islands would be a prelude to the fall of Taiwan. However, the 11 August memorandum restating US opposition to the admission of Communist China to the UN was received with relief and appreciation, and the Nationalist air victory of 14 August buoyed popular spirits and received banner headlines in the press.

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AGREEMENT REACHED IN GENEVA TECHNICAL TALKS

The experts at the Geneva conference on detection of nuclear tests, by reaching agreement on the number of control posts necessary and on the use of mobile inspection teams, cleared the way for preparing agreed recommendations for submission to their governments. The USSR will probably accept the recommendations quickly in order to launch a broad and in-

tensive campaign for a prompt end to all tests.

On the question of the required number of control posts, the Soviet delegation moved from its original figure of 100-110 to the Western-proposed figure of 160-170 throughout the world, plus a few ships. Although there has been no breakdown of this figure by country,

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there will be 24 posts in North America, 6 in Europe, 37 in Asia, 7 in Australia, 16 each in South America and Africa, 4 in Antarctica, and about 60 on islands.

The two sides agreed to recommend that mobile inspection teams be used at the discretion of an "international control authority" to determine whether an unidentified event detected by control posts was a nuclear explosion. The compromise on inspection does not include, however, the wording of the original Western proposal, which described how extensively teams would be used and was designed to make it clear that inspection teams were an important and integral part of the inspection system. The USSR, which hoped that teams would be used only rarely, may in the future create some difficulties about implementing the mobile inspection provisions. The agreement does not make it clear how the control authority would decide in a specific case whether to inspect or not.

At the request of the Western delegation, certain political problems were left for governmental decision, including, the organization of the control authority, the nationality of personnel manning control posts, and the choice of the initial countries in which posts would be set up.

The Soviet delegation agreed to recommend an extensive and detailed system of inspection far beyond anything that the USSR has been willing even to discuss in the past. Moscow would not have allowed this if it did not anticipate

major political dividends to result. The USSR wants tests ended because it considers this a step toward an agreement to ban the use of nuclear weapons. It also wants to prevent other nations from acquiring nuclear weapons. Moscow expects to profit politically from the fact that it was the first country to stop tests unilaterally, that it agreed to the demand for technical talks before a test ban, and that it accepted a significant amount of inspection.

Moscow will probably not be satisfied with unilateral declarations by the Western powers on a test ban but will seek to have a formal multilateral agreement signed ending tests. It may propose a date for a summit meeting to accomplish this and to consider a few other topics such as disarmament and the Middle East. The USSR will probably also emphasize the issue at the UN General Assembly, seeking a vote in favor of an agreement for a test ban.

The agreement at Geneva indicates how far Moscow is willing to go to achieve a partial disarmament agreement that it believes is in the Soviet interest. The USSR remains suspicious of extensive inspection inside Soviet borders, however, and Khrushchev told the Austrian delegation in Moscow recently that the USSR could not under any circumstances permit inspection of its factories during the first step of a disarmament plan. A Soviet official has recently hinted, however, that the USSR will be willing to go ahead with the technical talks on measures to prevent surprise attack proposed by President Eisenhower for October. 25X1
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PART II

NOTES AND COMMENTS

SINO-SOVIET ECONOMIC RELATIONS

The Sino-Soviet technical assistance agreement signed on 8 August is further evidence that Peiping is playing a more significant role in its own industrialization program. The agreement provides that in view of Peiping's achievements in industrial development, China will carry out designing, surveying, and research work, and its engineering industry will provide equipment for most of 47 plants which the agreement specifies are to be constructed or expanded. For its part, the USSR will supply patent rights and technical data without charge and some technical assistance which will be paid for through current Chinese exports to the USSR.

Peiping's ambitious 1958 economic program, the "great leap forward," has been launched without Soviet credits. As has been the case since 1956 when Soviet loans to China were virtually exhausted, deliveries of equipment for China's industrialization plan are to be paid for out of current exports. During the first Chinese Five-Year Plan the USSR agreed to deliver \$1.4 billion worth of industrial equipment--30 percent under loans--for 156 key Chinese projects. These Soviet credits, however, amounted to only 2.6 percent of total Chinese imports and 4 percent of China's investment in new plant machinery and equipment. Moscow's economic assistance is now confined largely to making available for China's industrialization program equipment and technical assistance paid for by deliveries of Chinese goods. Soviet technicians are becoming less numerous in China but, along with economic advisers, are reported to exercise

substantial influence on Chinese economic policy.

Peiping has made a point of keeping outright economic aid at a minimum, preferring to pay on current account for economic development. The two Soviet loans in support of China's industrialization under the First Five-Year Plan totaled \$430,000,000 and constitute the only economic aid it has received from any source. These loans are less than 12 percent of similar Soviet economic aid granted the rest of the bloc. They are less than economic loans granted by the USSR to East Germany or Poland, and are only about 30 percent of the value of Soviet economic aid to non-bloc underdeveloped countries. China is itself making loans or grants worth more than twice the value of the aid it has received.

The USSR continues to be China's major trade partner, accounting for about 50 percent of China's trade. China accounts for 25 percent of Soviet trade. In 1957 the USSR in effect granted Peiping a short-term loan by permitting China's purchases to exceed its deliveries to the USSR. Peiping is to deliver sufficient goods this year to balance the account.

This year China's debt-service payments to the USSR total just over \$300,000,000. This payment primarily covers servicing of loans granted for Soviet deliveries of military items. While it is believed unlikely that Peiping is seeking economic loans from the USSR now, it is possible that it may hope to obtain some relief from repayments for military goods which impose a great strain on its resources.

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CHINESE COMMUNISTS REORGANIZING COUNTRYSIDE

Mao Tse-tung's current inspection tour of Chinese provinces brings to the fore Peiping's plans for radically reorganizing rural economic and social life. The program--attributed to the "guiding ideas" of Mao--envisages the gradual amalgamation of industry, agriculture, commerce, culture and education, and the militia into large communes which would form the basic units of Chinese society. Under the program, collective farms are being merged and given responsibility for nonagricultural activities, all with a view to their eventual transformation into integrated economic and cultural centers comprising tens of thousands of persons.

The commune system is being described by Peiping as a step forward leading from socialism toward Communism. The program was initiated early this year when the Chinese began to merge agricultural cooperatives and to combine them with local industries under a single authority. According to Peiping, the communes already established include nonagricultural enterprises such as supply and marketing stores, transport facilities, power plants, radio stations, schools, hospitals, and the militia.

Workers in less developed communes still receive work points for their labor, and the communes remain essentially cooperative property. The distribution of income, however, is based on the total earnings of the communes including industrial as well as agricultural work. In the most advanced communes, a wage system supplants the system of rewards based on work points.

Apart from Peiping's desire to increase efficiency by merging farm cooperatives into communes, the regime probably sees in a system of communes a chance to advance its objective of securing more effective control of rural life. Furthermore, the Communists probably anticipate that, by combining agricultural cooperatives into fewer communes, the task of allocating the limited number of directors who are both "red and expert" will be made easier.

Increased party control over the peasants will be needed to counter the "fierce struggle" which the Communists apparently envisage as the program gets under way. Peasants from the richer collective farms are expected to balk at sharing their relatively large earnings with peasants from the poorer farms just as richer peasants balked at sharing earnings with poorer ones when they were originally organized into collectives.

Mao's undertaking has some points of similarity to Khrushchev's earlier "agricultural cities" plan which evidently met with high-level opposition and was abandoned. The first step in Khrushchev's plan was the merger of collective farms, followed by the resettlement of peasants into larger centers or "agricultural cities." While Mao has not proposed actual resettlement, his aim, like Khrushchev's, seems to be the eventual formation of amalgamated enterprises in which peasants will work for wages under state supervision.

So far there has been no evidence that a forced drive is under way to merge Chinese

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cooperatives into communes. The success of the early grain harvest together with good prospects for the fall harvest should, however, improve the

relations of Communist cadres with the peasants and may go a long way toward facilitating the commune program.

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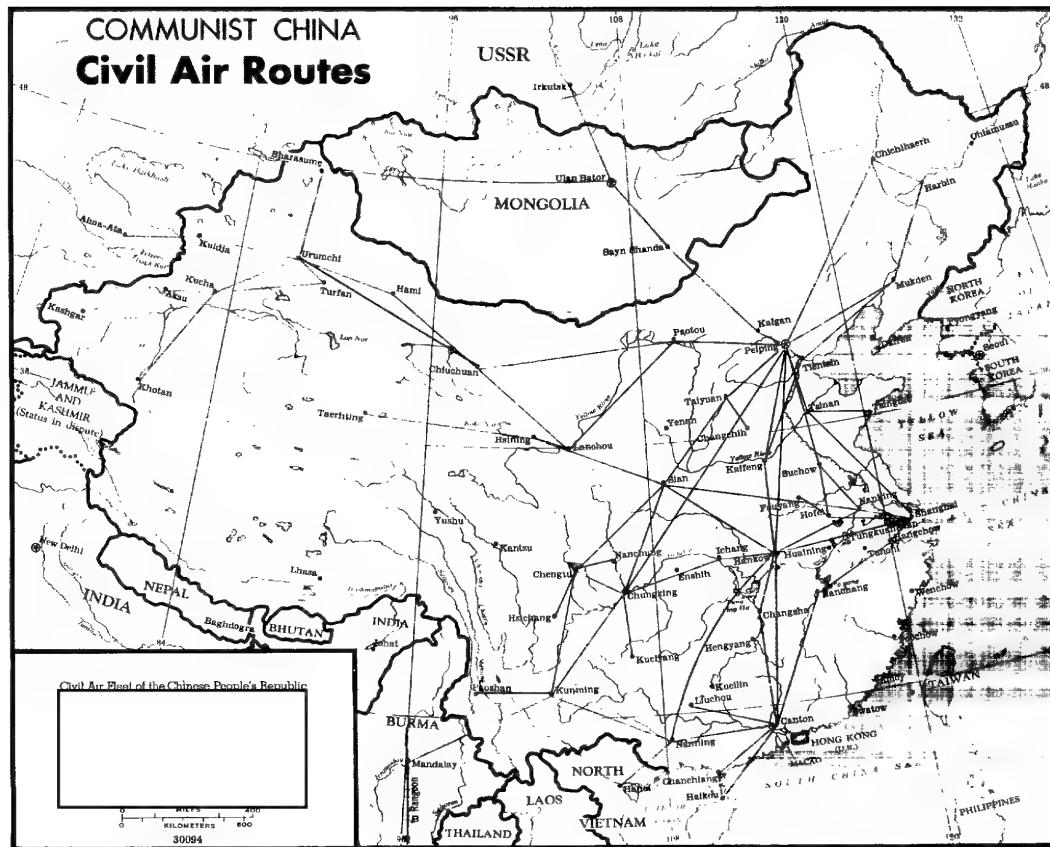
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COMMUNIST CHINA EXPANDING CIVIL AIR SERVICES

Concerned that the country's transport facilities are not sufficient to handle all the demands of the "giant leap forward" movement, Peiping has pressed for expansion and fuller use of existing transport facilities. As part of this program, Peiping is expanding its civil air services, promising that the speed of develop-

ment of these services will "far surpass" that of Great Britain over the next five years. In that period, according to China's Civil Air Administration, passenger and freight service will be increased "more than ten times." A leading spokesman in the field has called for the opening of more new lines, and airline workers have been



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exhorted to increase their operating efficiency so that present lines can give better service.

To encourage wider use of air services, Peiping on 1 July reduced rates by an average of 40 percent, with the greatest reductions coming in the Northwest and Southwest "where ground communications are at present limited."

Most of the newlines opened thus far are local feeder lines designed to link areas poorly served by surface transport with the main civil air routes. "Scores" more are to be opened by the end of the year. The aircraft used on these lines is the AN-2--a light, ten-passenger plane now being turned out in China. Not all of the new lines, however, serve out-of-the-way places. The connections between Shanghai and Tsingnan and between Peiping and Tsingtao are apparently designed to supplement the railroad linking these cities, very likely for the movement of high-priority freight and passengers. When the vital Yellow River bridge

just north of Chengchow was put out of commission by recent high waters, temporary air service was inaugurated between Chenchow and Hsinhsiang, just north of the river.

To service these expanding air routes, Peiping is moving to bolster its civil air fleet. Both modern turboprop aircraft and helicopters are to be introduced into the fleet in the near future. The former will be used on longer routes, the latter, to supplement light transports on shorter hauls. Peiping says it will order "high-speed, heavy transports" from the USSR later this year.

In addition, Peiping has spoken of buying abroad some 30 light transports, probably to take up some of the slack until domestic production of the AN-2 reaches the point where it can satisfy demand. Peiping has indicated that it will begin domestic manufacture of a medium transport, which may eventually replace the IL-14, currently the workhorse of China's domestic airlines.

by ORR)

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SINO-JAPANESE TRADE COMPETITION IN SOUTHEAST ASIA

Industrial and commercial interests in Japan are increasingly concerned over Communist inroads on their Southeast Asian markets, but thus far have been unable or unwilling to devise countermeasures. Tokyo, however, has been attempting to promote a multinational economic development fund which would orient Southeast Asia's trade toward the free world, primarily Japan, and Foreign Minister Fujiyama probably will renew these attempts when he visits Washington on 11 and 12 September.

Communist China has attempted with some success to expand markets in Southeast Asia by undercutting Japan on consumer and capital goods and by calling on the Overseas Chinese to boycott Japanese products. Peiping's campaign has been most effective in Malaya, Singapore, and Indonesia.

Although the majority of the approximately 14,000,000 Chinese in Southeast Asia favor the Peiping government over that of Taiwan because of ethnic and cultural ties, Chinese merchants

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for the most part base their operations on commercial considerations.

Peiping has reinforced its call for a boycott by cutting prices up to 20 percent below Japanese quotations and by granting liberal credit terms. Chinese Communist commercial agencies also have threatened to terminate trade with Chinese firms in Hong Kong which retain trade relations with Japan. In Thailand, some Chinese merchants are reported to have formed an

association to import only Chinese Communist products.

Japanese exports to Southeast Asia, excluding the Philippines, have declined about 10 percent in 1958. Textiles have been hardest hit, along with cement, ceramics, bicycles, light machinery, and steel products. The decline cannot be attributed entirely to the Communist action, however; it also has been influenced by the general decline in world trade. 25X1

(Concurred in by ORR)

NEW LAOTIAN GOVERNMENT

The new Laotian Government excludes the Communist-dominated Neo Lao Hak Zat and is avowedly anti-Communist and Western oriented. It does not, however, appear capable of effecting the reforms essential to restore public confidence or to eliminate the root causes favoring

nated by Kätay D. Sasorith, who is vice premier and holds both Defense and Interior portfolios. Judging from his past performance, he will use his position to build personal support in the security forces rather than to carry out needed reforms. He is an opponent of the drastic monetary reform which is essential for the country's economic well-being.

Old-guard conservative politicians succeeded in limiting young reformists in the Committee for the Defense of the National Interest (CDNI) to only four seats in the 11-man cabinet. The CDNI capitulated on its demand that it receive at least a majority position in the cabinet only under pressure from the crown and in the face of evidence of wavering among its military supporters. While the four CDNI representatives in the cabinet are probably honest and capable, their influence will be limited by their inexperience and lack of support in the National Assembly.

The influence of the CDNI in any event will probably be offset by the inclusion in the cabinet of four low-level



KATAY

the growth of Communist influence.

The new government fails to present a sharp break with the corruption and weakness of its predecessor. It is domi-

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conservative politicians, who are likely to function as lackeys of Prime Minister Phoui Sananikone and Katay and are apparently a counter to the CDNI. At least two of the four are tainted with past charges of corruption.

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Rounding out the slate is Bong Souvannavong, [redacted] [redacted] who until this May was Laos' leading fellow traveler and anti-American spokesman. Bong, however, has been in vociferous opposition to every government for the past few years and has a reputation as an opponent of governmental corruption. [redacted]

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INDONESIA

Indonesian Premier Djuanda and his cabinet, seriously alarmed at spiraling inflationary pressures and a rapidly growing budgetary deficit, have reportedly developed a coordinated stabilization program [redacted]

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The American Embassy in Djakarta sees no signs, however, of the administrative discipline essential to the effective functioning of a stabilization program.

While most of the people apparently have enough to eat despite a tripling in the price of rice, nearly all other facets of Indonesia's economy have suffered severely over the last nine months. The anti-Dutch campaign has resulted in the departure of badly needed technicians and the flight of capital, while the rebellions in Sumatra and Celebes continue to be a severe drain on the resources of the central government. Gross national product may be down as much as 17 percent in 1958.

In his 17 August Independence Day speech, President Sukarno added few ingredients to the mixture of highly emotional nationalism and anti-Westernism which he habitually presents to mass audiences in Indonesia. He took the West severely to task for failing to appreciate the strength and significance of Asian-African nationalism and for allegedly seeking to frustrate the attainment of its goals. In typical fashion, he seemed to hold the West solely responsible for obstructing the progress of Indonesia's as yet uncompleted "revolution." Sukarno strongly reaffirmed, however, Indonesia's policy of non-alignment in world affairs.

In connection with domestic problems, Sukarno's speech seems to foreshadow an acceleration of his "guided democracy" program. After criticizing Indonesia's multiparty system, he urged that steps be taken at least to reduce the importance of political parties as agents of internal

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progress. He also discussed the recently constituted National Planning Board, which is expected to be a major vehicle-- along with the National Advisory Council--for the application of "guided democracy." Sukarno acknowledged that the armed forces will play a major role in "cleaning up state affairs, civil as well as military."

American military aid, the first increments of which are now arriving by air, has been well received by Indonesian officials, especially Army Chief of Staff Nasution. Sukarno also is described as being "very happy" over what Djakarta interprets as a change in the US attitude toward Indonesia. 25X1

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OPPOSITION PRESSURES ON PAKISTAN'S FOREIGN POLICY

Exploitation by opposition groups in Pakistan of growing popular dissatisfaction with Karachi's pro-Western foreign policy is likely to make it difficult for government leaders to continue to defend Western actions in the Middle East. Both leftist and rightist opposition groups may make Pakistan's foreign policy the major campaign issue in the country's first national elections, scheduled to be held in six months. A majority of the population is probably opposed to the government's pro-Western orientation.

The leftist National Awami party (NAP) on 10 August opened a propaganda campaign in Karachi calling for abrogation of military pacts, close relations with the Arab nationalists, and immediate withdrawal of Western troops from Lebanon and Jordan. The party decided in July to launch a massive campaign on the foreign policy issue throughout East Pakistan, where sentiment in favor of neutralism is particularly strong. The leader of former Prime Minister Suhrawardy's Awami League in East Pakistan has already advocated a revision of the country's foreign policy and reportedly is considering joining the NAP.

The conservative Moslem League on 9 August formally called on the government to change its policy so as to co-operate with the Arab nationalist movement and oppose foreign "interference" in the Middle East. The Moslem League inaugurated the country's pro-Western foreign policy when it was in office, but its attacks on the pro-Western orientation inhibit the present government's freedom of action.

Pakistan's inability to dispose of its surplus cotton in the free world is causing it substantially to increase its economic dealings with the Sino-Soviet bloc. Pakistan has already concluded two barter deals with Communist China and one with Poland which will enable it to exchange about half of its 300,000-bale cotton surplus for rice and coal. Negotiations to arrange for disposal of the remainder are under way with Czechoslovakia and possibly with the USSR. Public pressure to seek economic assistance from the bloc 25X1 also appears to be increasing because economic conditions have failed to improve. 25X1

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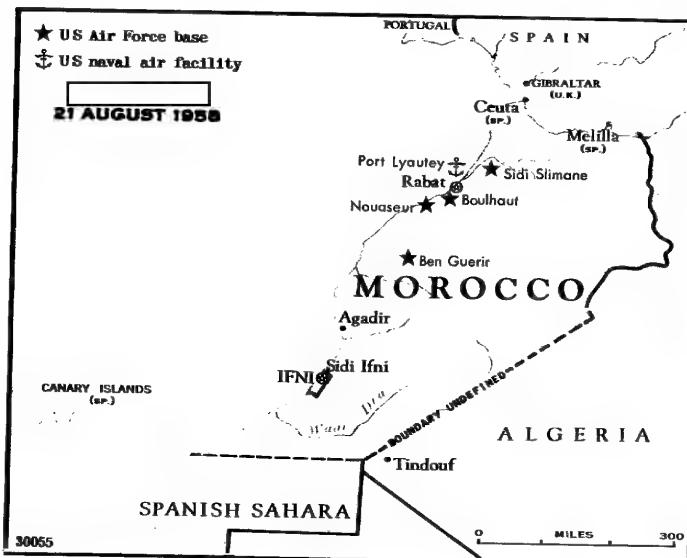
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AMERICAN BASES IN MOROCCO

Moroccan Premier Ahmed Balafrej told the American ambassador on 15 August that he doubts an agreement on US bases is possible in the "present climate of opinion in Morocco and other Arab states." He suggested, nevertheless, that the United States recognize the "principle of evacuation." This is the first time Balafrej has voiced such a request, although other officials and Istiqlal leader Allal el-Fassi urged informally some weeks ago that declaration of intention to evacuate the bases be made. Balafrej also urged that the United States make clear that its forces are in Morocco temporarily and have no intention of maintaining permanent bases there.

Moroccan nationalists, who have for years insisted that the American bases are illegal because they were built without consulting Morocco under a French-American bilateral agreement while Morocco was a French protectorate, have recently been arguing that the American bases do not exist. Balafrej reiterated this theme when he told the ambassador that there are in fact no US bases in Morocco--"only French bases containing US forces but under the French flag, under French guard, and conducting relations with the Moroccan Government through French liaison." Balafrej recently emphasized to an American news reporter that Morocco desires to avoid direct participa-

tion in the struggle between Eastern and Western blocs in the cold war, and that the existence



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of US bases compromises the Moroccan doctrine of "nondependence."

King Mohamed V, during a review of outstanding US-Moroccan problems on 13 August, also referred to the "existence of the bases" as the central issue to be negotiated. The King, however, expressed a belief that a provisional agreement could be worked out if negotiations are concluded speedily.

Balafrej's government is under fire from the left-wing element of his party which is pushing a policy of neutralism, and is also maneuvering to weaken the King's powers. Balafrej undoubtedly fears that any agreement which he might now conclude with the United States would damage his prestige fatally, as well as that of other Istiqlal moderates and the King.

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CYPRUS

Announcement on 15 August that London intended to proceed immediately with implementation of a modified version of its Cyprus plan, originally made public in Parliament last June, probably will not result in widespread attacks on the British by the Greek Cypriot underground organization EOKA at this time. Although the modifications in the British plan--which London claims are final--were designed to reduce Greek objections to the original plan while retaining enough of its features to prevent Turkish rejection, Athens has rejected the new proposals.

Archbishop Makarios also promptly rejected the modified plan as a "constitution of division" leading ultimately to partition of Cyprus, and warned of "grave consequences" which might follow attempts to impose the plan. Makarios also questioned the sincerity of the British, who he believes are committed to eventual partition. He indicated, however, that he hopes peace can be preserved on Cyprus to allow present passions to cool.

Initial reaction to London's modification by Greek Cypriot leaders on Cyprus was relatively mild. Several were convinced that the new proposals offer at least a basis for discussion and should not be rejected out of hand. The inter-communal violence during June

and July in which over 150 were killed may have influenced their views. Despite this initial reaction to the British proposals, Greek Cypriot leaders have reiterated their loyalty to Makarios and a willingness to abide by his decisions. Unless Makarios publicly alters his rejection of the latest proposals for limited self-government, the British can expect no cooperation from Greek Cypriots in their implementation.

Athens' rejection of the British proposals was accompanied by a refusal to appoint a representative by 1 October to confer with Governor Foot, as requested by London. The Greeks continue to oppose the provision for use of official representatives of Greece and Turkey in the administration of Cyprus, even though these representatives would not sit on the Governor's Council as originally proposed. The Greeks also oppose the plan to establish separate Greek and Turkish municipal councils on the island.

Ankara, on the other hand, apparently considers the modifications acceptable and soon may appoint a representative to confer with Foot regarding implementation of the plan. Turkish acceptance would probably be based on realization that the plan advances Ankara's claim to a voice in Cypriot affairs and does not exclude partition as a final solution of the problem.

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BRITISH-ICELANDIC FISHERIES DISPUTE UNRESOLVED

The approach of 1 September, when Iceland intends to begin enforcing a 12-mile fishing limit, brings an increasing possibility of incidents between Iceland and Britain.

British officials say they will use the fishery protection squadron to enforce historic rights of British fishing trawlers. Iceland, which lacks the patrol planes and vessels necessary to

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enforce the new limit, may demand American assistance on the grounds that NATO has undertaken to defend Iceland and has delegated this task to American forces stationed in the country.

A prominent official stated on 16 August that public opinion would undoubtedly demand that forces from the US air base at Keflavik "defend" Iceland against British or other violators of the 12-mile limit. The Communists, who hold the Fisheries Ministry in Iceland's coalition government, are doing all they can do to prevent any concessions, and the other parties have little inclination to challenge them on this emotional issue.

Compromise efforts are being made in Paris by fisheries experts from Iceland and seven other interested NATO countries. Last week a proposal was sent to the respective governments setting forth certain fish-conservation regulations pertaining to the waters adjacent to Iceland. There has been no official reaction to the proposal, but the Icelandic foreign min-

ister told the British ambassador on 16 August that further negotiations were fruitless unless Iceland could get "at least" a six-mile limit.

The situation has been further complicated by a Norwegian aide-memoire to London on 13 August stating that Norway intends to declare a 12-mile fishing limit during 1959 unless international agreement on the issue is reached within a year. Oslo itself argues that a 12-mile fishing limit is the only realistic global solution and suggests joint efforts to seek a temporary arrangement for Iceland until after a new conference on law of the sea.

Norway's action appears prompted by pressure from local fishermen, but there is also concern over the effect on NATO of possible incidents between Britain and Iceland. Oslo may believe that London, by seeing that another NATO member intends to extend its fishing boundaries, can be influenced to adopt a more moderate position in its dispute with Iceland.

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FRENCH CONSTITUTIONAL REFERENDUM CAMPAIGN

French Information Minister Jacques Soustelle, whose position in the cabinet does not adequately reflect the power role he plays in the De Gaulle government, publicly warned on 16 August that failure to adopt Premier de Gaulle's new constitution in the 28 September referendum would lead to civil war. This probably constitutes his bid for the premiership as leader of a political grouping opposed to the "Communists and their friends." Approval of the new constitution is still considered certain, but oppos-

ing forces are beginning to crystallize.

The final draft of the constitution will not be publicized until the Council of State studies its legal aspects and De Gaulle returns at the end of August from a tour of French Africa intended to promote acceptance of the constitution there. The main struggle will evolve around the powers of parliament, which the constitution sharply reduces, but the question of Algeria, which the constitution avoids, will be an important background issue.

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By maneuvering for the total integration of Algeria with France, Soustelle is playing along with the settlers in Algeria, who pay lip service to this policy as a device to maintain their privileges and who believe that a large proconstitution vote there can be used to influence De Gaulle to favor integration rather than political federation. Elements in the army who want it to play a more active political role in support of total integration seem to be gaining strength at the expense of those unconditionally loyal to De Gaulle.

A member of De Gaulle's entourage reportedly believes that the constitution was written with Soustelle's candidacy for the premiership in mind. Anti-Communist and total integration themes during the constitutional referendum cam-

paign may build up support for Soustelle's bid for power by drawing on veterans' organizations and other rightists. His Union for the Renovation of France will rely on techniques used in the 13 May coup in Algiers.

Revival of the civil war threat which clouded the atmosphere in which De Gaulle was invested on 1 June is likely, however, to crystallize growing dissatisfaction in the Socialist party. Socialist members of the parliamentary consultative committee on the constitution were told by the party to reserve their position for the present. Other prorepublican elements are likely to be alienated if De Gaulle remains unyielding on the substantive changes which the committee recommended, particularly those broadening the competence of parliament. 25X1

PRESSURE FOR REVISION OF VENEZUELAN OIL POLICY

Political pressure is mounting in Venezuela, the world's leading exporter and second-ranking producer of oil, for revision of the prevailing 50-50 profit split between the government and the foreign oil companies.

The spokesmen of all of Venezuela's major parties have emphasized the need for a larger government share in the profits of oil companies. The Federation of Petroleum Workers, in which the Communists are active, passed resolutions at its convention in August demanding a minimum 75-percent government share of profits; revision of the oil concessions granted in 1956-57 by the ousted Perez regime, for which recipient companies paid about \$700,000,000

in royalties; and the establishment of a competing national oil industry. This attitude probably represents the consensus among organized labor elements.

Press opinion has been virtually unanimous in calling for a revision of the existing profit formula, and some prominent writers and other individuals have voiced their support for change. For example, Minister of Education Rafael Pizani, considered a potential presidential candidate in the elections set for late this year, stated during a diplomatic assignment last January that he endorsed an increased share for the government and reportedly branded the oil concessions granted by Perez "a despoliation of the Venezuelan people."

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The caretaker Venezuelan junta has announced that it will honor the present petroleum contracts during its tenure and leave the oil issue to the elected constitutional government, which does not take office until next April. Nevertheless, Venezuelan resentment over US oil import restrictions, and the government's sizable financial obligations inherited from the deposed dictatorship may at least force the junta to lay the groundwork for negotiat-

ing changes in the petroleum contracts.

The influence of Middle Eastern developments on future Venezuelan policy is suggested by the provisional government's acceptance of an invitation to attend the Arab League Petroleum Conference in Cairo next November and by public interest in the recent Middle Eastern contracts of Italian, Japanese, and US oil companies which have signaled the end of the 50-50 formula there.

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FURTHER COMMUNIST MEASURES TO ISOLATE WEST BERLIN

East German authorities are taking several actions designed to tighten their controls on the borders of West Berlin, mainly to prevent Germans from traveling between West Berlin and East Germany. Although these moves are not primarily aimed at Allied and West German access to Berlin, they indirectly contribute to the further erosion of the Allied position there. The Communists have, however, avoided measures that would openly flout the quadripartite agreements on Berlin.

The East German regime is now putting the finishing touches on a program started several years ago designed further to isolate West Berlin by rerouting elevated train service between suburban areas and East Berlin to avoid the Western sectors. The East Germans are constructing special platforms and switching arrangements on the elevated lines near the East-West sector border and on the outer railway ring which circles West Berlin. When this work is finished, the Pankow government, which operates the entire city's surface

railway system, will be able to separate elevated train service from that within West Berlin without great inconvenience to the East Germans and without warning. These facilities would also help the Communists to establish control over all inter-sector traffic.

The East German regime is reportedly making plans to require all persons crossing the West Berlin border in either direction to bear a special pass. On 14 August unusually strong controls were reported at a major East Berlin subway station near the sector border, possibly presaging heavier restrictions on persons using the still relatively free subway passage across the demarcation line.

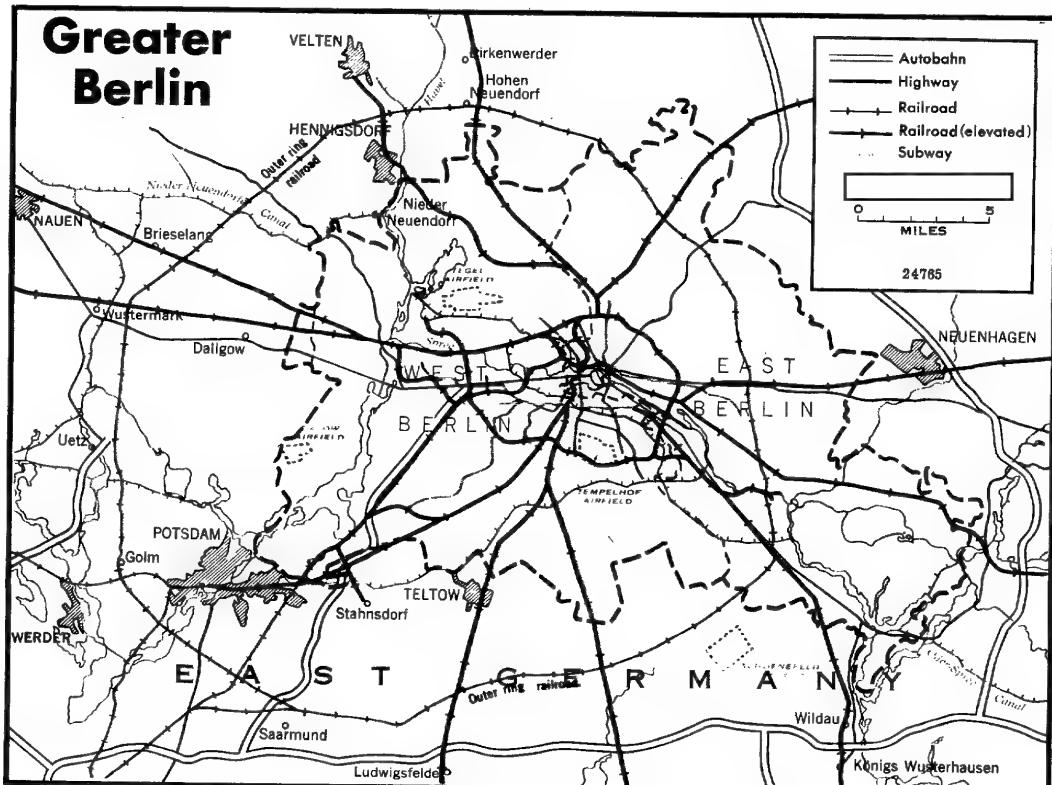
In addition to these security measures, Pankow is intensifying efforts to prevent East Germans living outside East Berlin from working in the West sectors. Pedestrians and train passengers are being apprehended at crossing points, urged to quit their jobs, and threatened with the loss of their homes.

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Approximately 10,000 East German residents were working in West Berlin on 1 January 1958, and 6,000 have quit their jobs thus far this year, mostly because of Communist pressure. In addition, about 25,000 East Berlin residents work in West Berlin. The East Berlin newspaper, National Zeitung, reported on 9 August that no action was planned against this group because it would violate quadripartite agreements.

Meanwhile, the Soviet authorities continue minor harassment of Allied highway traffic between West Germany and Berlin. Western military train traffic to and from Berlin has enjoyed relatively free movement. On 11 and 12 August, however, American coal shipments by train to Berlin were stopped at the West German border by East German customs officials in an apparent attempt to force the West to deal with the East German regime.

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BLOC ATTACKS YUGOSLAV NEUTRALIST FOREIGN POLICY

Yugoslav - Soviet bloc arguments have resumed as tension over the Middle East has lessened somewhat. The dispute has shifted, however, from attacks solely on Yugoslav "revisionist"

ideology to criticism of Yugoslav foreign policy. This criticism is directed mainly at the Yugoslav policy of "active" peaceful coexistence which the bloc describes as linked

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with "imperialism." This emphasis is probably intended to discredit Yugoslavia in the eyes of neutral countries in Asia and Africa.

Setting forth the theme of the current campaign, the Chinese periodical, Political Handbook of Current Affairs, recently called the Yugoslav policy of active coexistence "revisionist, reactionary, and in full accordance with the needs of the imperialists." On 19 July the Czech paper Rude Pravo attacked the Yugoslav "third force" concept of a grouping of uncommitted countries.

Moscow's newest attack in Pravda on 19 August, echoed by Peiping radio the following day, accused the Yugoslavs of disrupting the solidarity of the Communist bloc and following the American line. As proof Pravda points to Yugoslav reporting of the recent Khrushchev-Mao meeting in Peiping. The Yugoslav paper Borba carried only a short summary of the joint Sino-Soviet communiqué without independent comment and later reprinted an article from the New York Times. According to Pravda, this placed Borba in the "same camp with aggressive US circles." Pravda claimed that the crux of the matter is the Yugoslav policy of maneuvering between camps.

Moscow looks with disfavor on any signs of close cooperation between Tito and the neutrals, and appears to be es-

pecially sensitive to Tito's influence on Nasir. Moscow may also be displeased with Tito's efforts to persuade neutrals, such as Indonesia, the UAR, and possibly Ceylon, Burma, and India to organize a "junior" summit meeting at the height of the Middle East crisis. By discrediting Tito in the eyes of the neutrals, Khrushchev may hope to prevent the coalescence of a neutralist bloc.

In reality, however, the Yugoslav attitude toward the Middle East has not been far removed from the Soviet line. Belgrade condemned the US and British landings and has demanded the withdrawal of troops from Lebanon and Jordan. The Yugoslavs were among the first to call for a UN General Assembly session, and articles in Politika on 13 August and Narodna Armija on 14 August sharply criticized a prediction by Pravda's New York correspondents that Yugoslavia would support the US position in the UN debate.

In another development in the campaign against Yugoslavia, Tirana has been making a cause célèbre of the shooting in Yugoslavia of an Albanian national, possibly as a prelude to breaking off diplomatic relations. The Chinese Communist People's Daily on 19 August joined Albania in accusing the Yugoslavs of "murder." The Chinese claimed that Yugoslavia was carrying out "crude and open interventions" in Albania because Albania is "a thorn in the side of Yugoslav revisionism."

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SOVIET PLANS FOR EASTERN AREAS DEVELOPMENT PROBABLY RETARDED

Khrushchev's recent speech at the dedication of the Kuybyshev Hydroelectric Station suggests that Soviet plans for large-scale industrialization of the eastern areas have been stretched out considerably. These plans figured prominently in the Sixth Five-Year Plan (1956-60) as an industrial counterpart to the agricultural extension into the new lands and were announced last fall as a major objective to be included in the as yet unannounced Seven-Year Plan (1959-65). Construction has been lagging significantly, however, and it now appears probable that the Seven-Year Plan will not try to make up the lost time.

Khrushchev stressed the importance of gaining time in the race with the West in support of his argument favoring the use of thermal electric power over the next seven or eight years. This objective of rapidly closing the gap can best be served by emphasizing investment in the developed western areas rather than in the newer eastern areas where production returns on investment are slower. Huge hydroelectric stations were a basic element in plans for industrial development of the eastern areas of the USSR. While thermal plants theoretically could be installed instead, it is not likely that plans for construction of thermal units will be increased to

this extent in these areas of potentially cheap water power.

The rate of investment in the eastern areas in the past few years has not been impressive and, if not increased, the share of total state capital investment in the eastern regions during the Sixth Five-Year Plan period will amount to about 32 percent as opposed to 35 percent in the Fifth Five-Year Plan. The Sixth Plan originally cited a figure of 42 percent.

The slow progress in the eastern areas derives from various factors. The housing program, taking place predominantly in the western part of the country, has cut into resources going into eastern development. Before the housing program was launched last year, the industrial construction program in western areas, so important to achieving rapid economic growth, was requiring more resources than originally planned. Also, there has been a growing reluctance of skilled construction workers to take up pioneer living in the east. Finally, uncompleted construction throughout the country is growing in volume, a fact causing considerable concern in Moscow, and action to remedy this in the past has often taken the form of postponing new starts in the east [redacted] 1

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Religious groups in East Germany are facing increasingly severe restrictions on their activities. The German Democratic Republic (GDR) previously had concentrated its attacks on the Evangelical Church in East Germany in an attempt to isolate it from its counterpart in the Federal Republic and bring it under control; in recent weeks the Catholic Church has also been the object of vigorous attacks. By pursuing policies aimed at alienating rank-and-file pastors and laymen from the church leadership, the government is trying to breach the unified front presented by the German Evangelical Church in its struggle against the Communist regime.

Church leaders were outmaneuvered by government officials during negotiations in June and July on church-state relations and were put in a position of agreeing to concessions unpopular with many pastors. These leaders are now prepared to back down on many points at issue with the government, and it appears that the Evangelical Church will be unable to continue to maintain its position as a center of resistance to Communism in East Germany.

Evangelical Church

Approximately 82 percent (13,740,000) of the East German population are at least nominal members of the German Evangelical Church (Protestant), still the established church of Germany, but only 10 to 20 percent of them participate actively in church affairs.

Observers in Germany caution against overestimating the role of the Evangelical Church in the fight against Communism.

The group has long struggled against indifference but has failed to appeal to the youth, and the average Evangelical pastor has not developed the intimate relationship with his congregation usually found in Catholic communities. Therefore, the restrictions placed on church activities have little effect on large segments of the population and arouse no widespread resentment. In fact, there is an increasing tendency on the part of East Germans to seek an accommodation with the regime on church matters.

Catholics

Faced with a common enemy, Protestant and Catholic leaders in East Germany tend to cooperate rather than oppose each other. This has led to charges by the regime that the Christian churches have formed a "conspiracy against socialism." Although the Communists obviously consider the Evangelical Church the greater impediment to complete control of the population, leading Catholic churchmen have recently been termed "war-monger," "propagandist against the East," and "disdainful of the will of the people."

During the All-German Catholic Rally in Berlin from 13 to 17 August, the Communist press published a number of vicious anti-Catholic articles linking the church with "imperialism" and "militarism," and charging that the major aim of the Catholic Church is "the salvation of imperialism." The Vatican was termed the "world's biggest stockbroker," interested only in profits. Literature given to persons attending the rally was criticized as using religion as a cover for attacks on socialism.

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The regime has leveled especially bitter attacks at the Jesuits, and in late July several leading Catholic laymen and four Jesuit priests were arrested on vague charges of antiregime activity.

Communist Rituals

In its effort to eliminate Christianity as a rallying point for opposition to Communism and cut a last link with the West, the regime has devised ceremonies and rituals to take the place of Christian sacraments. The Communists are operating on the assumption that the Germans are wedded to the form and ritual of the Christian church rather than its content. Communist wedding and christening services are now being used. The focal point in church opposition to the regime's campaign to win adherence to Communism has concerned the Jugendweihe, a Communist youth-dedication ceremony designed to take the place of Christian confirmation. Both the Evangelical and Catholic Churches refuse to confirm youths who participate in this ceremony.

As the regime has for all practical purposes made Jugendweihe a requirement for graduation from high school and admission to university or technical school, an increasing number of parents are more reluctant to forbid their children to participate in the ceremony. Regime officials claim that attendance at Jugendweihe has shown a marked rise in 1958. In May 1958, according to the government, 43 percent of all those completing school participated in the dedication ceremony, with attendance ranging from 27 percent in one district to 58 percent in another.

Many East German Christians and even some Evangelical pastors reportedly are saying it is unrealistic for the church to discriminate against children.

who have been virtually forced into Jugendweihe. They believe the ceremony will not necessarily make Communists of children and will not have lasting significance for most of them, pointing out that for many children confirmation itself has no deep spiritual meaning. All would agree, however, that Christians should participate in Jugendweihe 25X1 only if there appears to be no reasonable way to avoid it.

church leaders have agreed they must make some compromise with the state in order to spare the youth and parents from an impossible dilemma, and that in the future, youngsters who have participated in Jugendweihe will be permitted to observe regular religious ceremonies.

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Church-State Negotiations

The GDR moved to isolate the Protestant Church in East Germany from the all-German church organization when it announced in late May that henceforth it will not conduct discussions on church affairs with noncitizens of the republic. This move was directed primarily against Bishop Otto Dibelius, head of the German Evangelical Church, and other religious leaders who live in West Berlin or the Federal Republic. Subsequent negotiations between church leaders resident in East Germany and East German officials led by Premier Otto Grotewohl have been sharply criticized by many pastors as weakening the position of the church in its struggle against Communism.

Following discussions on 2 and 23 June and 21 July, the premier issued a communiqué on 27 July setting forth the outcome of the negotiations. The church representatives agreed that the arrangement whereby the church furnished chaplains for the West German armed

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forces was not binding on the churches in the GDR. They also agreed "in principle" to the "peace efforts of the GDR," and stated that they "respected the development of socialism." In return for the church's dropping its charge that the state had deprived citizens of their constitutional guarantee of freedom of religion, the state reaffirmed the right of all citizens to practice religion without interference. The government also agreed to reconsider making school buildings available to the church and removing certain barriers to religious education.

In evaluating the church-state negotiations, the bishops and other church leaders have alleged that the church made gains. It was clearly unable, however, to obtain any specific commitments to ease pressures on it. A joint communiqué proposed by the church committee was brusquely rejected, and the draft proposed by Grotewohl



GROTEWOHL

was adopted with only minor amendments. While some church leaders say the fact that the regime negotiated with the church at all was a gain, others maintain that it proved only that the regime was confident the church's influence was declining.

Many pastors are critical of the statement that Christians "respect" the development of socialism in East Germany, which church negotiators had regarded as a victory since it had enabled them to avoid taking a loyalty oath. Disagreement over the negotiations may cause



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lower ranks of the clergy to become critical of the church leadership and contribute to a further weakening of the entire church structure in East Germany.

Financial and Other Problems

The regime's increasingly stringent financial restrictions on the church present a problem to which there seems to be no solution. The GDR will probably raise additional barriers to the receipt of direct financial assistance from the West. Congregations in Germany are not accustomed to supporting their activities through collections. While the GDR permits the church to collect taxes for its support, it must act as its own tax collector and the regime throws many obstacles in the way. Financial troubles have caused Bishop Dibelius to assign priorities to activities with the expectation that all except actual church services may eventually have to be discontinued for lack of funds.

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The shortage of pastors and the church's growing inability to train new ones because of government restrictions present another major problem for the church. It needs at least 1,000 additional pastors, and has ordered those serving in East Germany not to defect to the West, but to remain with their congregations and exemplify Christian principles by taking a determined stand not to bow to the regime.

"National" Church League

In June, a small group of pastors with guidance from East German officials established a "League of Evangelical

Pastors of the German Democratic Republic" to serve as a nucleus from which a separate East German "national" church can develop. The league has stated that it sees in the "socialist order" a "God-given opportunity" for the church to become again an institution free from all connections alien to Christianity and free from the "bourgeois capitalist system" and its "world concept." While this group is not likely to achieve any great popular success, as it has no members with any considerable prestige or following, it will probably receive substantial support from the regime in its effort to undermine the Evangelical Church.

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THE ECONOMY OF POLAND'S WESTERN TERRITORIES

Recent praise in the Polish press for the economic contribution of the "western territories"--the formerly German Oder-Neisse area--to Polish economic development is designed to serve notice that these areas have become irrevocably Polish as well as to counter West German accusations that the Poles are incapable of administering the area.

Although the region is still well below its prewar economic level and the continuing political controversy over its status still discourages permanent settlers, the economic activity there has played a significant part in the rapid postwar recovery of the Polish economy as a whole. The integration of this region, which now accounts for 27 percent of the total value of Polish industrial output, has added a large number of industries and resources and has supplied surpluses for export of coal, coke, lead, zinc, railroad equipment,

seagoing vessels, mining machinery, and semifinished products.

Political Background

The German territories east of the Oder and Neisse rivers--known in Poland as the "western territories"--were placed under Polish administration by the Potsdam agreement. The final decision on sovereignty was to be postponed until a peace treaty for Germany could be negotiated. Disregarding the Potsdam agreement, East Germany concluded a bilateral agreement with Poland eight years ago recognizing the Oder-Neisse boundary. The Western allies, however, do not accept as final the incorporation of this area into Poland.

Despite the somewhat indeterminate status of the region, the Poles have succeeded in integrating the area both ethnically and economically. In 1938 there were about 7,000,000

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persons in the western territories, practically all German; at present there are only about 6,000,000, mainly Polish. Two thirds of the Germans had fled or been deported by 1950, and the exodus continues.

As a result the area has been drained of large numbers of trained agricultural and industrial workers. Resetters have been largely agricultural laborers with little experience in the scientific techniques previously employed by the German farmers and little of the skill needed in the industrial enterprises of Silesia. All economic activities have been adversely affected by the decline in the population and the lack of skilled labor, although increased investment and concentration of manpower in some parts of the western territories have raised pro-

dissolved.

The present inhabitants have been unable to equal the prewar crop yields, and agriculture has lagged far behind industry in the rate of recovery and development. Settlers fear that Poland will not retain the area and they do not therefore farm as they would if they felt the soil was permanently their property. Furthermore, many settlers from lands that were formerly eastern Poland continue to use the rather primitive agricultural methods characteristic of those areas. Nonetheless, production has increased substantially since Gomulka liberalized Polish agricultural policies.

Industrial Development

The abundant deposits of coal, iron, copper, nickel,

duction in those areas above the prewar level.

Agricultural Development

The postwar drive to collectivize the private farmland in the western territories met with considerable superficial success and, by 1955, approximately 55 percent of the agricultural area was collectivized, compared with 20 percent for Poland as a whole. The large number of expropriated estates in the area and the influx of agricultural refugees from the eastern territory lost to the USSR created conditions particularly conducive to the formation of collective and state farms. Since Gomulka's advent to power in late 1956, however, most of the agricultural collectives have been

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lead, and zinc in the western territories provided a sound basis for heavy industrial development under the German administration, primarily in upper Silesia. When the Poles assumed control of the area, they assigned top priority to the reconstruction and rehabilitation of heavy industry--60 percent of all industry having been destroyed during World War II--with large postwar investments allocated for the reconstruction of mining and industries dependent upon it, notably the chemical industry.

25X1 The industrial status of the region, in general, has been raised almost to the prewar level, but production methods have remained inefficient and the amount of labor required has been unduly large. Coal, Poland's most important mineral resource, is the main source of industrial energy and the principal raw material for the expanding chemical industry. In 1957, the coal output for the western territories amounted to 30,000,000 tons, or about 32 percent of total production. Total coke production in Poland last year was 10,900,000 tons, about 51 percent of which was produced in the western territories. In 1957, power production was 74 percent above prewar. The region's current output of crude steel is roughly 31 percent of total Polish steel output. The acquisition of this area doubled Poland's capacity to mine and produce lead and zinc. The growth of the chemical industry, scheduled to become the second most important industry in Poland, has also been impressive.

Light industry is an important aspect of the economy,

although its recovery has been uneven and slower than that of heavy industry. Local raw materials are being used in such industries as glass, ceramics, timber, food processing, textiles, and leather. As early as 1955, the western territories produced 76.5 percent of all the radio sets manufactured in Poland. However, many of the smaller enterprises, especially in small urban centers in the northern and western agricultural sectors, have been abandoned,

PRODUCTION OF POLAND'S WESTERN TERRITORIES

METRIC TONS

	WESTERN TERRITORIES PRODUCTION 1957*	PERCENTAGE INCREASE OVER 1958	TOTAL POLISH PRODUCTION 1957*
HARD COAL	29,900,000	13%	94,000,000
BROWN COAL	5,700,000	5	6,000,000
COKE	5,600,000	165	10,900,000
IRON ORE	70,000	160	1,994,000
CRUDE STEEL	1,200,000	120	5,300,000
MACHINE TOOLS	9,000	700	31,315
GRAIN (1956 FIGURES)	3,230,000**	-33	12,069,000
ELECTRIC POWER	6,900,000,000/kwh	74	21,200,000,000 (kwh)

*OFFICIAL POLISH FIGURES

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explaining in part the depressed conditions of some of these districts. The Gomulka regime, which is currently permitting increased investment in consumer industries, will probably reactivate a large number of these light industrial enterprises and raise the standard of living.

Prospects

Partition-conscious Poland will continue to concentrate on the economic development of the western territories for practical economic reasons as well as to strengthen its claim to the area as a permanent part of Poland. Many years will elapse, however, before an efficient well-rounded economic development program at prewar standards is possible. In fact, such may never be attained while Poland

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is under Communist control because of the probable continuation of a disproportionate emphasis on heavy industry and the population's fear of a resurgence of West German irredentism. While the reduction in the size of the population

and the consequent decline of labor productivity will further hinder the attainment of Polish economic objectives in the western territories, the area will continue to be vitally important to the general Polish economy.

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MALAYA'S FIRST YEAR OF INDEPENDENCE

Declining economic activity has marked the Federation of Malaya's first year of independence, to be celebrated on 31 August. The government's reduced income and the resulting cutbacks in the development program could adversely affect the conservative pro-Western Alliance government in next year's national elections.

Economic Situation

The federation produces one third of the free world's tin and natural rubber, and its prosperity depends almost entirely on world prices for these commodities. As a result of international export restrictions on tin and reduced rubber prices, customs and excise collections for the first six months of 1958 were 16 percent lower than in the comparable period of 1957. Tin production has reached its lowest point in 11 years, with 39 percent of the mines in operation in December 1957 having been forced to shut down and most others operating only part time. Unemployment has mounted, adversely affecting activity in other sectors of the economy.

Decreasing revenue has crippled the government's efforts to bolster the economy. In a situation calling for more spending on development projects, the government has been unable to maintain even the rate originally planned. A program aimed at increasing production of pineapples, coconuts, and rice in order to reduce reliance on tin and rubber has been postponed indefinitely. The government has not yet succeeded in its efforts to encourage foreign investment in the country.

The recession in Malaya has led to new demands for greater trade with bloc countries, especially Communist

China, and also, in this connection, for the establishment of diplomatic relations with Peiping. China since July 1957 has ranked just behind the United States, Britain, and Japan as the largest purchaser of Malayan rubber.

Malayan Communist Party

The federation government has not yet succeeded in ending the ten-year-old jungle war with the Communist terrorists. Substantial progress has been made, however, and less than 1,300 terrorists remain in the jungle, compared with 2,000 a year ago and at least 7,000 at the height of the rebellion.

The most recent Malayan Communist party (MCP) manifesto reiterates the party's united-front policy and indicates that, despite the continued existence of its jungle forces, the party's primary goal is to achieve legal recognition and thus, in turn, facilitate its subversive program. In next year's general elections, the MCP will probably concentrate on supporting the opposition parties, all of which favor legal recognition of the MCP and an immediate end to the "emergency."

With more than 90 percent of its membership Chinese, the party's subversive capability is limited by its lack of appeal to the Malays and Indians. It is apparently most effective in the Chinese middle schools, where the Communists are exploiting the desire of the Chinese to protect their culture against a government policy aimed at building a Malayan

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rather than Chinese curriculum. Chinese student riots last fall in Malaya's three largest cities were probably organized and directed by the Communists.

Political Situation

Political stability in Malaya is threatened principally by the existence of tensions among the federation's three races. These communal tensions have developed from generations of community and cultural exclusiveness. The two major groups--Malays and Chinese--are separated by race, religion, historical background, and means of livelihood. There is practically no intermarriage.

Despite these differences, the Alliance--a coalition of three moderate communal parties--has maintained cohesiveness and dominates political life. Opposition parties, however, are gaining strength, and next year's national elections will almost certainly add substantially to their representation in the national legislature, where they now hold only two of the 52 elective seats.

The political strength of the Alliance lies with the United Malay National Organization (UMNO) led by Prime Minister Abdul Rahman; this is the only party with an effective grassroots organization. The second partner in the Alliance, the Malayan Chinese Association (MCA), represents only a small part of the 38 percent of the population which is Chinese, while the Malayan Indian Congress (MIC) is even weaker. The Alliance attempts to serve as a coalition of three parties each of which claims to be the sole spokesman for its community, while, in reality, only the UMNO comes close to playing this role. This could create a crisis when the Alliance national council meets this fall if the MCA demands nominees for the national election next

year in proportion to the vast increase in the voting strength of the Chinese.

Foreign Policy

Internationally, the federation has taken a forthright anti-Communist stand. Its first act as a member of the United Nations was to vote in support of the United States' position on the question of Chinese representation. At the ECAFE conference in Kuala Lumpur in March, Prime Minister Rahman firmly rejected Soviet proposals for the establishment of diplomatic relations; this is in line with his policy of refusing formal relations with any bloc country until the Communist rebellion in Malaya is ended. While the federation is not interested in joining SEATO, its defense agreement with Britain is an indirect association with that organization.

The West's intervention in the Middle East has proved embarrassing politically to Malayan leaders, although several have privately expressed support for the US-British position. The government has felt compelled publicly to criticize the West in order to placate strong religious feelings of those Malayan Moslems who identify themselves with the Lebanese rebels.

While the Alliance government will probably remain pro-Western, a trend toward neutralism seems likely. The opposition parties are more inclined toward a neutralist position than the Alliance, and their influence will probably grow during the next few years. Peiping's propaganda exerts considerable influence on all segments of the Chinese population, while Indian and Indonesian neutralism attract many Malays and Indians. The Alliance may become more receptive to domestic neutralist sentiment with the approach of next year's national elections.

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The end of the "emergency," possibly within the next year, will give rise to pressure to lessen Malaya's ties with the West. Cessation of jungle warfare would make it more difficult to justify the presence of Commonwealth troops in Malaya and would lead to a demand for a review of the UK-Malayan defense agreements.

Prospects for the merger of Singapore with the Federation of Malaya have not improved over the past year. Malays remain fearful of becoming a minority in their own country

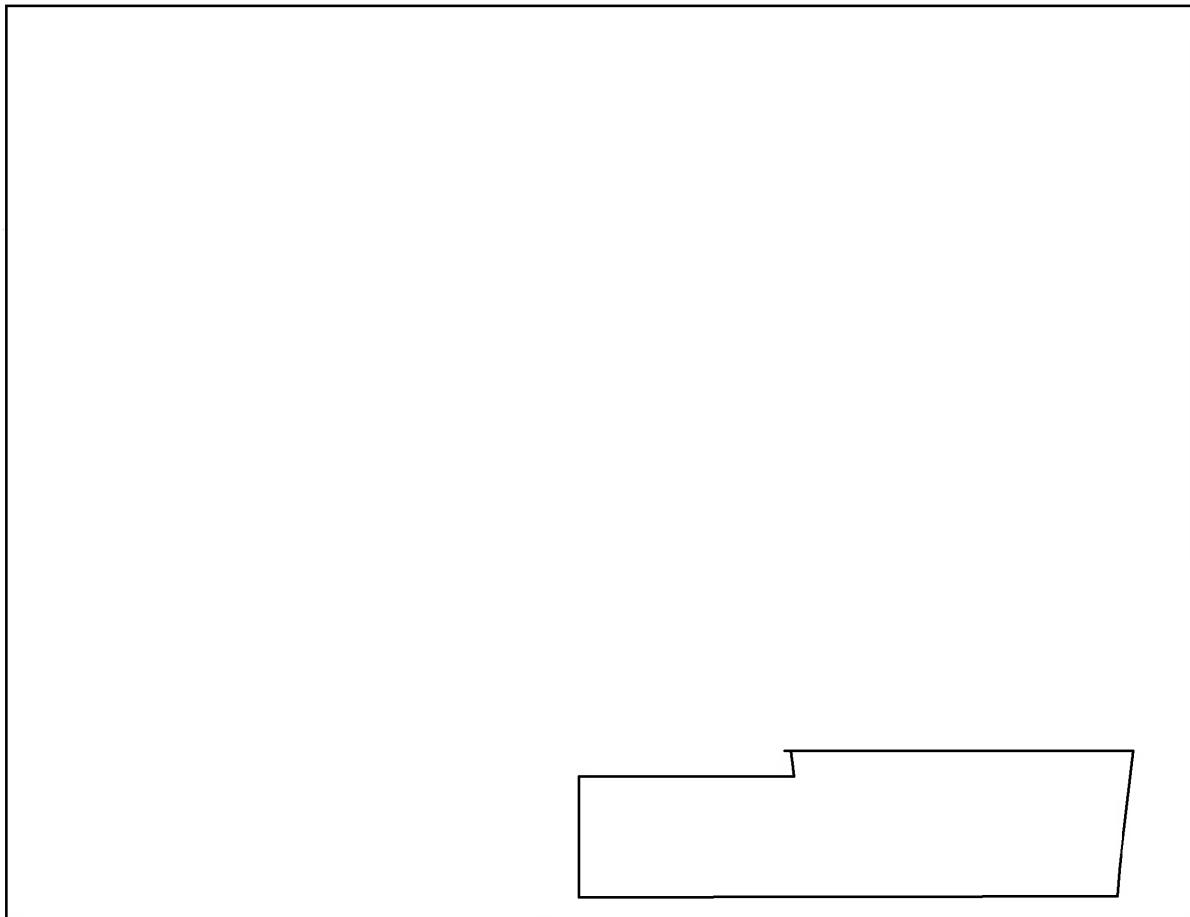
with the addition of more than a million Singapore Chinese to the federation population. The Alliance government is still suspicious of "radical" trends in Singapore politics. It has reluctantly agreed, however, to become involved in Singapore political affairs next year when Singapore achieves internal self-government. A federation representative will sit on the powerful seven-member internal security council in Singapore which is to be composed of three representatives from Britain, three from Singapore, and one from the federation.

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